



MONTANA LEGISLATIVE AUDIT DIVISION

Performance Audit Real Property Tax Exemptions Department of Revenue

A report to the Montana Legislature

Background

Montana offers real property tax exemptions to various entities for different purposes. Over 140,000 properties, most of which are publicly owned government properties, are automatically exempt from property taxes. Approximately 6,000 properties receive exemptions for which an application to the Department of Revenue (department, DOR) is necessary, including those owned by religious, charitable, community service, and other nongovernmental organizations. The Property Assessment Division (PAD) within the department oversees and manages exemption information and approves applications for real property tax exemptions. In FY 2024, \$2.3 billion was collected in property taxes in Montana.

The Real Property Tax Exemptions: Improving Information Management and Informing Policy Decisions (21P-06) performance audit was issued to the Legislative Audit Committee in May 2023. The audit examined DOR's management of exemption information and identified several areas for further improvement, such as improving data quality and site visits to help ensure entities are appropriately receiving exemptions and that similar types of taxpayers are treated equally. We conducted a cost/benefit analysis and determined that a periodic re-application requirement for certain exempt properties would be a net benefit to the state and taxpayers. We identified several best practices to improve legislative review and informed decision-making for current and potential future real property tax exemptions. Based on these findings, we issued eight recommendations, six to the department and two to the legislature.

During follow-up work, we found that the department and legislature took several steps to improve management and review of exempt real property information to ensure entities are appropriately receiving exemptions. We noted new quality control tests, more consistent site visits, improved reporting of exemption information in the department's biennial report, and the passage of legislation requiring a periodic review of exempt real property. There are still opportunities to improve the management of real property tax exemption information and the legislative evaluation and review of real property tax exemptions.

Based on our assessment, we have determined the following implementation status. For full context, see the "Agency and Legislative Actions Since the Audit" and "Audit Follow-Up Results" sections.

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Recommendations:

In the report titled, Real Property Tax Exemptions, we issued the following recommendations:

Implemented: 4

Being Implemented: 2

Partially Implemented: 1

Not Implemented: 1

Agency and Legislative Actions Since the Audit

In November 2025, we conducted follow-up work to assess implementation of the audit recommendations. We reviewed pertinent legislation introduced in the 2025 legislative session, interviewed PAD management and staff, and reviewed real property tax exemption data and documents.

We found that the department has implemented numerous quality control tests to help identify data quality issues and properties that may be receiving exemptions inappropriately. The department published an exemption handbook and trained staff on updating exempt real property records. It continues to take steps to further improve the data quality of exempt real property. The department added statutorily required exemption information to its biennial report. The department sought legislation (HB 87) that the legislature passed to align statute with practices regarding the taxation of property owned by the Department of Fish, Wildlife & Parks. The legislature also passed HB 29, which requires a review of exempt real property every eight years, and the DOR has taken steps to begin this review in January 2027.

While the DOR sought legislation to require governmental entities to report the beneficial use of exempt real property (HB 25), the bill died in process. We found that the department did not take significant steps to improve documentation of beneficial use in its data system or to inform government agencies of statute regarding the taxation of portions or exempt properties used for beneficial and/or exclusive purposes. Although the department has become more consistent in conducting and documenting site visits for exempt real property during the application process, there is still room to improve the recording of that information. The legislature did not propose legislation during the 2025 session to improve legislative review of property tax exemptions to determine if exemptions are meeting their intended purposes.

Audit Follow-Up Results:

Recommendation #1

We recommend the Department of Revenue:

- A. Implement quality control testing and review of exempt real property data and train staff to identify and prevent errors.
- B. Request a new application from the properties' owners that should have reapplied and review them to determine if properties are appropriately receiving an exemption.
- C. Update class codes and return properties to taxable status, when appropriate.

Implementation Status: Implemented

The original audit found that the department did not consistently perform quality control testing of exempt real property to ensure accurate records. We identified instances in which department staff did not appropriately update property records with the correct exemption status and some properties were incorrectly listed as exempt or taxable. We also found a number of exempt properties that were required to reapply via HB 389 (2015) that were not identified or reviewed by the department during that process.

In follow-up work, we interviewed department staff and reviewed the quality control tests that the department implemented, along with exemption data and the department's exemption handbook. We found that the department now runs over 10 quality control tests monthly to help identify data quality issues related to exempt real property and properties that may be inappropriately receiving an exemption, the results of which are provided to managers to examine and correct records as needed. Other tests are run by the property tax exemption specialist as needed. The department published an exemption handbook that outlines monthly quality control tests and provides additional guidance for updating records involving exemptions.

The department also identified approximately 250 properties that should have reapplied as part of the HB 389 (2015) reapplication process, sent letters to those properties asking them to reapply, reviewed reapplications, updated class codes, and returned properties that did not qualify for the exemptions to the tax rolls. The department is still researching whether a number of properties owned by a utility company should be subject to property taxes. It is also determining whether certain tribal properties are federal trust land, which is exempt, or private fee land, which is taxable.

Recommendation #2

We recommend the Department of Revenue establish and implement processes to improve the accuracy and usefulness of data to enhance reporting on exempt real properties.

Implementation Status: Being Implemented

The original audit identified several opportunities for the department to improve processes that affect the quality of the descriptive information used to develop reports on exempt real properties. As part of follow-up work, we interviewed the department, examined exemption data, and reviewed the department's quality control tests. We found that the department has implemented new quality control tests that help identify data issues with exempt real property and has expanded its exemption guidance. It continues to improve the quality of descriptive fields that support properties' exemption or taxable status. The department has added additional exemption categories to its system to better correspond with exemption types in statute.

The department acknowledged it is still working with its vendor to resolve system limitations. One issue is the automatic assignment of termination dates to properties when a deed and ownership name are updated, but an ownership transfer has not occurred. Another prevents partially exempt properties from appearing on the department's public list of exempt real property on its website.

Recommendation #3

We recommend the Department of Revenue consistently conduct and document site visits as part of the exemption application review process as required by administrative rule to verify that property is being used for its exempted purpose.

Implementation Status: Being Implemented

Our original audit work found that the department did not consistently conduct and document site visits as part of its exemption application review process. We noted during our review of HB 389 (2015) reapplications that there were over 600 exemptions with no site visit recorded and no inspection of any kind recorded for at least five years. Site visits to exempt properties are required by administrative rule and are an important control for the department to help ensure exempt properties are being used for their reported purpose.

During follow-up, we interviewed department staff, reviewed processes, and reviewed exemption data, including the completion of site visit descriptive information. We found that the department integrated guidance in the exemption handbook on entering site visit information into the database and runs a quality control test to identify properties where a site visit has not been recorded. Our review of the completion of site visit information showed significant improvement in documenting that site visits were conducted for new exemption applications over the last four years. However, we found that several site visit descriptive fields remained blank for around 20% of applications in 2025. Department staff stated that they will continue to improve entering descriptive information associated with a site visit into its database. As part of the periodic reapplication process beginning in 2027, the department also intends to perform a site visit and enter related information for reapplicant exemptions we identified during audit work where a site visit was not recorded.

Recommendation #4

We recommend the Department of Revenue revise practices and, as necessary, seek legislation to align statute and department practices related to determining and recording the taxable status or payment in lieu of tax amount of Department of Fish, Wildlife & Parks property.

Implementation Status: Implemented

The audit found properties owned by the Department of Fish, Wildlife & Parks (FWP) that were incorrectly marked as taxable in the DOR's database, and FWP received and paid a tax bill; this practice was inconsistent with statute, which provided that FWP property was exempt from taxes and instead should make a payment in lieu of taxes (PILT) to offset losses in property taxes to local governments due to the existence of certain exempt FWP properties within their boundaries.

During follow-up work, we reviewed HB 87 (2025) and FWP property records in the DOR's database. The legislature passed the bill, which makes FWP properties that were previously exempt and required to make a PILT are now subject to property taxes. The bill simplified administrative processes and aligned statutory requirements with how the department was handling FWP properties during the audit. Our review found that the overwhelming majority of FWP properties (99 percent) are being taxed correctly. We identified 23 properties lacking information to support their taxable status and brought these to the department's attention for review.

Recommendation #5

We recommend the Department of Revenue:

- A. Develop and implement a process to identify and track government and private exempt property leased out to nonexempt entities for their beneficial or exclusive use.
- B. Seek legislation to require public entities that own exempt property leased to nonexempt entities for their beneficial or exclusive use to report to the Department of Revenue a statement of the leasing of such tax-exempt property.

Implementation Status: Partially Implemented

The audit found that government-owned properties leased to private entities for their exclusive and beneficial use were underreported, despite potential taxability under §15-24-1203 and 15-24-1101, MCA, possessors and beneficial users were required to report beneficial use of exempt property, the property owners, including governmental entities, were not required to report. We also found that the department recorded inconsistent leasing and other beneficial use information in its database, and that the department could improve its outreach efforts to increase reporting.

In follow-up work, we reviewed HB 25 (2025) and interviewed the department about its effort to improve outreach and tracking of beneficial and exclusive use information in its database.

The Revenue Interim Committee brought forward HB 25, aided by the department, which would have required owners of exempt real property that lease or otherwise allow the possession or beneficial use of tax-exempt property to report such information to the department. After an initial hearing and amendments, the bill died in process.

We found that while DOR reached out to the Department of Administration and further trained its staff, the department has not significantly improved its tracking of beneficial use information in its database. The department has not conducted outreach to other state, federal, and local government agencies to help educate them, obtain information to determine if beneficial use of such exempt property is occurring, and make a determination on its taxable status.

Recommendation #6

We recommend the Montana Legislature require a periodic reapplication and review of exempt real property, taking into account the costs and benefits of either a broad or targeted reapplication process.

Implementation Status: Implemented

In the original audit, we examined the department's implementation of HB 389 (2015), which required a one-time reapplication and review of most exempt real property for which an application was necessary. Our cost-benefit analysis determined that a periodic review of exempt real property could be net beneficial to taxpayers and the state.

During follow-up, we interviewed department staff and reviewed pertinent legislation. The legislature passed HB 29 (2025), which requires the department to administer a review of all exempt real property for which an application is necessary at least once every eight years and to report the results of the review to the Revenue Interim Committee biennially. The bill takes effect in 2026.

The department stated that it intends to split the reapplication and review of exempt entities across this first eight-year cycle, prioritizing properties receiving exemptions that the department determines are the highest risk. The department plans to send out a letter in the fall of 2026 to all exempt entities for which an application is necessary, informing them of the requirement to reapply. The department will then send out a reminder letter specific to the cohort of properties receiving exemptions that the department determined should be reviewed first by January 2027; owners of such properties will have until March 1, 2027, to submit their reapplication. The department will complete its review of such exemptions over that year, prior to repeating the process with the next group of exemptions in 2028 and so on until the eight-year period is complete.

The department has taken steps to streamline the exemption application process by allowing organizations to file exemption applications online and only requiring reapplicants to provide a new letter confirming specific use of the property and providing any documents that have been updated since the last reapplication.

The department has drafted administrative rules specifying the periodic exemption review process, set for review and adoption in 2026. As noted in the audit report, it will be important for the legislature to continue to weigh the costs and benefits of the time interval in which periodic review of real property tax exemptions is conducted, as the department provides it with information from this latest review and going forward.

Recommendation #7

We recommend the Department of Revenue provide the required information related to real property tax exemptions, as available, in the biennial report to better inform legislative decision making.

Implementation Status: Implemented

The original audit found that the department did not include all statutorily required information concerning real property tax exemptions in its biennial report. During follow-up, we reviewed the department's 2022-2024 Biennial Report. We compared its reporting on real property tax exemptions to statutory requirements. We found that the report now includes the year enacted and a column indicating the purposes of the exemption when enacted, as applicable, for the vast majority of exemptions for which an application is necessary. The department added several additional exemption categories for which an application to the department is necessary that were not previously in the report, including several exemptions that were not being used; this allows required information, such as the gross dollar amount of revenue loss attributed to such exemptions and a count of properties receiving such exemptions, to be included.

Although the department did not outline the data necessary to determine the effectiveness of the one real property tax exemption that has an explicit legislative purpose in its most recent biennial report, this could be reasonable, as no entities had applied for and were receiving the exemption. Especially if entities begin receiving this exemption or if more real property tax exemptions are given explicit legislative purposes by the legislature and are used, it will be important for DOR to outline data necessary to evaluate such exemptions in the report, as required by statute.

Recommendation #8

We recommend the Montana Legislature:

- A. Require new real property tax exemptions include policy goals and evaluation metrics that can be used to determine if exemptions are meeting their purposes.
- B. Assign responsibility for evaluation and review of real property tax exemptions.

Implementation Status: Not Implemented

Audit work found that the Montana Legislature has not consistently established purposes and policy goals for its exemptions and has not consistently conducted evaluations to determine if exemptions are meeting their intended purposes, as suggested by best practices.

In follow-up work, we found that the legislature did not introduce legislation that required new property tax exemptions to have purposes and evaluation metrics or assign responsibility for evaluation and review of exempt real property. We continue to believe that the legislature should consider the best practices in tax exemption policy outlined in the audit, especially establishing legislative purposes, as well as periodic review and evaluation.